



MARKET ANALYSIS

October 2009

The relentless growth witnessed in US and European equity markets continued in September as the 6 month bull run continued to be spurred on by unprecedented levels of stimulus undertaken by governments and historically low interest rates. Almost as if to prove the point of just how exceptional the market recovery has been, the FTSE 100 recorded the single biggest quarter gain in its 25 year history in the third quarter of 2009.

The critical question remains though just how much of the recovery is directly attributable to the various stimulus packages and how much is self-sustainable. Central bankers have started to talk about the end of the beginning (though not the beginning of the end) with Tim Geithner particularly bullish when announcing that the US economy had 'stepped back from the brink'.

In the UK, Mervyn King remains perhaps more sceptical, with the Monetary Policy Committee remaining committed to the £175 billion quantitative easing programme. Likewise, at the European Central Bank, Jean Claude Trichet echoed the sentiments of many other central bankers when he announced it was unlikely that interest rates would be raised at all in the next 18-24 months. Following months of downbeat statements and doom-mongering, perhaps economists have forgotten how to be positive?

There are however signs of a sustained recovery. The Chinese economy, which every day becomes more integral to the global recovery, continues to grow and while UK unemployment hit a 13 year high in September, many economists believe we are witnessing the peak and unemployment will slowly start to fall. National GDP have shown rather modest increases but in the case of the UK and the USA these remain only predictions.

Elsewhere, interesting research from the US supports the sustainable recovery. Longview Economics, who believe that Bond markets are more important than equity markets in understanding the overall economic environment and have accurately predicted the last five recessions and recoveries, have called the end of the global recession. Not everyone agrees, with many commentators warning of a potential 'double blip' or 'W' shaped recovery.

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Key Data

	30-Sep	31-Aug	+/(-%)
FTSE 100	5133.90	4908.90	4.4%
Dow Jones	9712.28	9496.28	2.2%
EuroStoxx50	2872.63	2775.17	3.4%
Nikkei 225	10133.23	10492.53	-3.5%
Hang Seng	20955.25	19724.189	5.9%
MSCI EM	844.02	839.46	0.6%
Crude Oil	\$70.61	\$69.97	0.9%
£ = \$	1.6004		
€ = \$	1.4646		
£ = €	1.1000		

Interest Rates

Bank of England	0.5%
European Central Bank	1.0%
US Treasury Reserve	0.25%



The Dollar had a poor month, at one point touching \$1.50 against Pound Sterling, as concerns that low interest rates are starting to weaken the Dollar. The Dollar was also down against the Euro. Oil remained largely unchanged around the \$70 dollar per barrel mark, whilst gold was up over 5% in the month.

UK

House prices have continued to rise, with the average residential property back above £160,000. The Englishman's love affair with his castle is not over yet, unless you happen to be a Liberal Democrat. Their suggestion of a 0.5% tax on properties valued over £1,000,000 was greeted with widespread derision in September. Meanwhile Labour and the Conservatives continue to argue about what really constitutes a spending cut, though both agree that an impending national debt of over 100% of GDP is somewhat staggering.

EUROPE

Unemployment figures revealed the equivalent of 165,000 people becoming jobless across Europe in September (almost one in five workers in Spain are now unemployed), truly illustrating the human impact of the recession. In Germany the month ended with the Federal elections which, as widely expected, returned Angela Merkel and the Christian Democratic Union to power, though this time in coalition with their preferred partners the Free Democrat Party. There are expected to be no major changes to economic policy following the election.

US

Macro economic data in the US was largely disappointing in September as consumer confidence dropped as unemployment continued to rise. Spending on construction was up 0.8%, but remains down 11.6% from September 2008 levels. The reign of the Dollar as the world's reserve currency remains in doubt, with worries that the Dollar would be hit hard if interest rates should be raised elsewhere first.

ASIA/PACIFIC

The latest figures published revealed that the recovery in the Chinese economy continues at full pace. Car production was up 90% year on year, mainly due to the cash for clunkers schemes in operation worldwide, with industrial production as a whole up 12.3% year on year. Sales of consumer goods increased 15.4% year on year, which will be good news to the central government in Beijing, who have identified consumer goods as an important area of expansion to avoid an over-dependence on exports (which are down 23% over the first 8 months of 2009). Elsewhere, the Royal Bank of Australia may be the first to raise interest rates in the near future, with a surprise October hike not ruled out.

EMERGING MARKETS

Emerging Markets continued to benefit from the relatively stable global economic environment (relative to the chaos of only 6 – 12 months ago) and were supported by improving commodity prices throughout September. Those investors seeking to return to risk assets have turned to Eastern Europe, the Pacific Rim and Latin America as the developed economies celebrate almost negligible growth. Brazil, one of the largest and most important emerging markets, reiterated the increasing importance of developing economies when Rio de Janeiro beat Chicago, Tokyo and Madrid to host the 2016 Olympics. One of the central points of Rio's presentation was their developing economy would enable a 'debt-free' and economically sound

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Games, though it's not sure whether the carnival spirit, amazing weather and stunning beaches also played any part in the decision.

CREDIT

There were further reassurances from Moody's that the UK and USA would not lose their prized AAA credit rating, even if national debt continued to rise. While this is perhaps good news, several such assurances have previously failed to settle investor concerns.

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